

Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

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C O N F I D E N T I A L CAIRO 0186

E.O. 11652: GDS

TAGS: ECON, EFIN, EAID, EG

SUBJECT: EGYPT'S ECONOMY: WHAT'S TO BE DONE

REF: CAIRO 0122

1. EGYPT WILL BE REQUIRED TO UNDERTAKE SEVERAL MAJOR POLICY INITIATIVES THIS YEAR IF FUNDAMENTAL DISTORTIONS IN ECONOMY ARE TO BE CORRECTED OVER TIME AND GROUNDWORK LAID FOR REAL DEVELOPMENTAL GROWTH. SOME OF THESE POLICY AREAS OVERLAP WITH ACTIONS CAPABLE OF BEING CONDUCTED, AT LEAST PERIPHERALLY, BY USG AND OTHER DONORS, BUT BASICALLY THEY ARE RESPONSIBILITY OF GOE AND EGYPTIAN PEOPLE THEMSELVES. OTHER IDENTIFIABLE MOVES IN ECONOMIC SPHERE ARE PROVINCE OF DONOR NATIONS, ASSUMING GOE WILL DO NECESSARY TO SHORE UP DEFICIT-RIDDEN FOREIGN TRADE SECTOR AND STRUGGLING DOMESTIC ECONOMY. VARIOUS OF THESE REQUIRED ACTIONS ARE EXAMINED BELOW.

2. EGYPT AT MINIMUM MUST: A) FURTHER LIBERALIZE ECONOMY, FREEING UP PRIVATE SECTOR INCENTIVES AND ATTRACTING MORE THAN TOKEN AMOUNTS OF FOREIGN INVESTMENT; B) REDUCE EXPENDITURE IN REAL TERMS ON MILITARY ESTABLISHMENT; C) MOBILIZE SAVINGS OF EGYPTIANS AT HOME AND ABROAD FOR
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PRODUCTIVE PURPOSES; D) DIVERT BUDGET RESOURCES FROM SOCIAL BENEFITS (MAINLY FOOD SUBSIDIES) TOWARD SPENDING ON INFRASTRUCTURE; E) AT SAME TIME, RE-EXAMINE DESIRABILITY OF CURRENT HIGHLY CAPITAL-INTENSIVE INVESTMENT IN PUBLIC SECTOR INDUSTRY; F) MOUNT EFFECTIVE MANPOWER PROGRAM INCORPORATING BOTH BIRTH CONTROL AND APPROPRIATE TRAINING (OR RETRAINING) ACTIVITIES; G) RATIONALIZE PRICING

POLICIES, ESPECIALLY IN AGRICULTURE, SO AS TO FOSTER ADDED PRODUCTION. SUBSUMED IN SOME OF THESE BROAD POINTS ARE CERTAIN ASPECTS OF IMF REFORM PACKAGE, E.G., CUT IN SUBSIDIES ON BASIC COMMODITIES, MODIFICATION OF MULTIPLE FX RATE. OTHER DECISIVE PROBLEMS AREAS, E.G., POPULATION QUESTIONS AND AGRICULTURAL PRICES, ARE YET TO BE ADDRESSED.

3. CENTRAL TO CONSIDERATION OF ABOVE-LISTED POLICY DETERMINATIONS IS RECOGNITION THAT ALL ARE AFFAIR OF GOE, WITH INFLUENCE OF USG, OTHER GOVERNMENTS AND INTERNATIONAL AGENCIES IN DECISION-MAKING PROCESS HELPFUL ONLY AT MARGIN. (COMPLICATED EXCEPTION IS POLITICAL INTERACTION ON REGIONAL SCALE, AND BETWEEN SUPERPOWERS, ON QUESTION OF MILITARY CONFRONTATION WITH ISRAEL AND FUTURE COST OF ARMED PREPAREDNESS.) EGYPT MUST AND WILL DECIDE ITS OWN ECONOMIC COURSE IN YEARS TO COME.

4. TWO FURTHER POLICY AREAS NONETHELESS ARE OPEN TO INITIATIVES BY WESTERN AND ARAB DONORS WHO, ALMOST BY DEFINITION, ARE CONCERNED WITH UNDER-PINNING MODERATE POLITICAL RULE IN EGYPT THROUGH FURTHERANCE OF ECONOMIC DEVELOPMENT. THESE ARE A) PROVIDING SUBSTANTIAL FINANCIAL (AND TECHNICAL) AID AS HOLDING ACTION WHILE RESULTS OF REFORMS ARE AWAITED, AND B) RESCHEDULING GOE DEBT BURDEN. MEANS TO EFFECT HEIGHTENED U.S. ASSISTANCE OVER SHORT TERM AS COLLATERAL MEASURE TO GOE ACCEPTANCE OF IMF REFORM PACKAGE ARE TREATED SEPARATELY (REFTEL). DEBT RESCHEDULING IS SUBJECT NOT FORMALLY RAISED BY GOE, BUT ONE POSSIBLY THAT WILL SURFACE IN IBRD CONSULTATIVE GROUP. THIS PROBLEM CONFIDENTIAL

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TOO IS RELATED INDIRECTLY TO DONOR ASSISTANCE. MUCH OF MOST PRESSING GOE DEBT BURDEN IS REPRESENTED BY SHORT MATURITY COMMERCIAL OBLIGATIONS INCURRED (AND REFINANCED) SINCE 1974. ACCESS TO MEDIUM-TERM OFFICIAL CAPITAL AT MODERATE INTEREST RATE FOR PURPOSE OF RETIRING BULK OF BANK CREDIT FACILITY OBLIGATIONS (SEE PARA 6 REFTEL, IN ADDITION TO STRETCH-OUT OF OFFICIAL LOAN REPAYMENTS COMING DUE THIS YEAR, WOULD GREATLY ENHANCE GOE'S ABILITY TO COPE WITH FINANCIAL MANAGEMENT PROBLEMS OVER CRUCIAL PERIOD JUST AHEAD.

5. THERE IS, THEREFORE, MULTIPLICITY OF THINGS NEEDED TO BE DONE TO BAIL OUT EGYPTIAN ECONOMY. STRIKINGLY APPARENT IS FACT RELATIVELY LITTLE CAN BE DONE STRICTLY BY OUTSIDERS OTHER THAN TO ACT IN SUPPORTIVE CAPACITY. IMPORTANCE OF INITIATIVES OPEN TO DONORS IS HEIGHTENED, HOWEVER, BY CRITICAL BEARING THOSE MEASURES COULD HAVE ON DECISION-MAKING PROCESS AND RESOURCE MANAGEMENT WITHIN GOE. UNDERTAKING WIDE-RANGING ECONOMIC REFORM PROGRAM, A RESPONSIBILITY OF GOE LEADERS, WILL BE NECESSARY BUT NOT SUFFICIENT CONDITION

FOR ADVANCE ON DEVELOPMENT FRONT; TRANSFERS OF CAPITAL AND
TECHNOLOGY ON GOVERNMENT-TO-GOVERNMENT BASIS ALSO WILL BE
REQUIRED. LATTER MAY WELL PROVE DECISIVE IN BRINGING ABOUT
FORMER.
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